

BOB WILSON MEMORIAL GRANT COUNTY HOSPITAL

FINANCIAL STATEMENTS

and

ADDITIONAL INFORMATION

with

INDEPENDENT AUDITOR'S REPORT

YEARS ENDED DECEMBER 31, 2010 AND 2009

George, Bowerman & Noel, P.A.
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Bob Wilson Memorial Grant
County Hospital
Ulysses, Kansas

We have audited the financial statements, as listed in the table of contents, of Bob Wilson Memorial Grant County Hospital, a component unit of Grant County, Kansas, as of December 31, 2010 and 2009 and for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bob Wilson Memorial Grant County Hospital as of December 31, 2010 and 2009, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

George Bowerman & Noel, P.A.

Wichita, Kansas
July 8, 2011

BOB WILSON MEMORIAL GRANT COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Bob Wilson Memorial Grant County Hospital's (Hospital) financial performance provides an overview of the Hospital's financial activities for the fiscal years ended December 31, 2010 and 2009. Please read it in conjunction with the Hospital's financial statements, which begin on page 7.

(Financial Highlights)

- The Hospital's net assets decreased by \$1,230,336 or 3.85 percent in 2010 and increased by \$11,734,853 or 57.92 percent in 2009. The significant increase in 2009 was due primarily to contributions of capital assets paid for by Grant County in connection with the building project.
- Contractual allowances, charity care and bad debts reduced gross patient service revenue by \$10,980,337 or 48.52 percent of gross patient service revenue in 2010 and by \$12,504,555 or 52.53 percent of gross patient service revenue in 2009.
- The Hospital reported operating losses in both 2010 (\$3,045,062) and 2009 (\$2,229,745).

Financial Statements

The Hospital's financial statements are prepared using proprietary fund accounting that focuses on the determination of changes in net assets, financial position and cash flows in a manner similar to private-sector businesses. The financial statements are prepared on an accrual basis of accounting which recognizes revenue when earned and expenses when incurred. The basic financial statements include a *balance sheet*, *statement of revenue, expenses and changes in net assets*, and *statement of cash flows*, followed by notes to the financial statements and schedules of certain additional information.

The *balance sheet* presents information on the Hospital's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may indicate whether the financial position of the Hospital is improving or deteriorating.

The *statement of revenues, expenses and changes in net assets* presents both the operating revenues and expenses and nonoperating revenues and expenses along with other changes in net assets for the year. This statement is an indication of the success of the Hospital's operations over the past year.

The *statement of cash flows* presents the change in cash and cash equivalents for the year resulting from operating activities, capital and related financing activities, noncapital financing activities and investing activities. The primary purpose of this statement is to provide information about the Hospital's cash receipts and cash payments during the year.

Financial Position

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheets on pages 7 and 8. The Hospital's net assets for each of the past three years is indicated in the following table.

	December 31,		
	2010	2009	2008
Assets:			
Current assets	\$ 4,652,591	\$ 8,315,960	\$ 8,094,541
Capital assets, net	28,167,150	25,289,878	11,561,209
Other noncurrent assets	—	—	1,874,177
Total assets	<u>\$32,819,741</u>	<u>\$33,605,838</u>	<u>\$21,529,927</u>
Liabilities:			
Long-term liabilities	\$ 120,072	\$ 121,741	\$ 78,244
Other liabilities	1,933,351	1,487,443	1,189,882
Total liabilities	<u>\$ 2,053,423</u>	<u>\$ 1,609,184</u>	<u>\$ 1,268,126</u>
Net assets:			
Invested in capital assets, net	\$28,167,150	\$25,289,878	\$11,561,209
Unrestricted	2,599,168	6,706,776	8,700,592
Total net assets	<u>\$30,766,318</u>	<u>\$31,996,654</u>	<u>\$20,261,801</u>

Recent Financial Performance

The schedule below is a summary of the Hospital's revenues, expenses and changes in net assets for the past three years.

	Year ended December 31,		
	2010	2009	2008
Operating revenue	<u>\$11,669,958</u>	<u>\$11,342,423</u>	<u>\$10,025,295</u>
Operating expenses:			
Salaries	7,757,495	7,677,129	6,098,015
Employee benefits	1,198,894	1,157,838	1,009,331
Supplies and other	3,863,978	3,909,275	3,515,268
Depreciation and amortization	<u>1,894,653</u>	<u>827,926</u>	<u>497,247</u>
Total operating expenses	<u>14,715,020</u>	<u>13,572,168</u>	<u>11,119,861</u>
Operating loss	<u>(3,045,062)</u>	<u>(2,229,745)</u>	<u>(1,094,566)</u>
Nonoperating revenues (expenses):			
Taxes	1,049,844	1,049,840	708,840
Investment income	30,209	135,437	255,542
Grants and contributions	24,372	20,000	75,430
Other, net	<u>77,940</u>	<u>35,811</u>	<u>74,136</u>
Total nonoperating revenues	<u>1,182,365</u>	<u>1,241,088</u>	<u>1,113,948</u>
Excess (deficit) of revenues over expenses before capital grants and contributions	(1,862,697)	(988,657)	19,382
Transfers from Grant County for capital assets	<u>632,361</u>	<u>12,723,510</u>	<u>7,027,785</u>
Increase (decrease) in net assets	<u>\$ (1,230,336)</u>	<u>\$ 11,734,853</u>	<u>\$ 7,047,167</u>
Net assets at end of year	<u>\$30,766,318</u>	<u>\$31,996,654</u>	<u>\$20,261,801</u>

The first component of the overall change in the Hospital's net assets is its operating income (loss)—generally, the difference between net patient service and the expenses incurred to perform those services. In 2010 the Hospital reported an operating loss of \$3,045,062 as compared to an operating loss of \$2,229,745 in 2009.

The rate of healthcare inflation has a direct effect on the cost of services provided by the Hospital. A component of the Hospital's costs are expenses for medical supplies and prescription drugs. Some of the major factors contributing to the increased medical supply and drug costs include the introduction of new drugs that cannot be obtained in generic form, and changes in therapeutic mix.

Nonoperating revenues consist primarily of property taxes levied by the County, investment earnings, and grants and contributions.

Capital grants and contributions of \$632,361 in 2010 and \$12,723,510 in 2009 consist of transfers of capital assets, related to the building project, from Grant County that were financed, in part, by general obligation bonds issued by the County.

Capital Assets

At the end of 2010, the Hospital had \$28,167,150 invested in capital assets, net of accumulated depreciation, as compared to \$25,289,878 at the end of 2009, as detailed in Note 5 to the financial statements. The Hospital acquired additional capital assets costing approximately \$4,772,000 in 2010 and approximately \$14,557,000 in 2009. The significant additions in 2010 and 2009 were primarily due to the construction project (Note 8).

Debt

At year-end, the Hospital did not have any outstanding long-term debt.

Other Economic Factors

Management expects the current economic conditions to continue over the next year.

Issues Facing the Hospital

There are issues facing the Hospital that could result in material changes in its financial position in the long term. Among these issues are:

- Risks related to Medicare and Medicaid reimbursement. A significant portion of the Hospital's revenues are derived from the Medicare program, which provides certain healthcare benefits to beneficiaries who are over 65 years of age or disabled, and the Medicaid program, funded jointly by the federal government and the states, which provides medical assistance to certain needy individuals and families. The funding of these programs by the federal and state governments face increasing pressure due to the significant increases in the costs of providing healthcare services in recent years.
- Healthcare reform. In 2010, the federal government enacted sweeping new legislation that will significantly impact virtually all aspects of the healthcare delivery and insurance systems in the country. Portions of the legislation will be implemented over the next several years. However, most of the detailed implemented regulations have not yet been issued and accordingly, any specific effects on operations of the Hospital are currently undeterminable. Management continues to closely monitor the progression of the implementation of the legislation.

- Employment and labor issues. The Hospital is a major employer within the community, employing a complex mix of professional, technical, clerical, maintenance, dietary, and other workers. Risks include personal tort actions, work-related injuries and exposure to hazardous materials. A relative shortage of nursing and other medical professional/technical employees, is an issue that is causing salary and benefits costs to increase at significant rates.
- Technology and services. Scientific and technological advances, new procedures, drugs and appliances, preventive medicine, and outpatient healthcare delivery may reduce utilization and revenues for the Hospital in the future. Technological advances continue to accelerate the need to acquire sophisticated and expensive equipment and services for diagnosis and treatment of illnesses and diseases.
- Increasing numbers of uninsured and underinsured patients. Due to the significant increases and high cost of healthcare insurance premiums in recent years, increasing numbers of patients of the Hospital are finding it more and more difficult to obtain or maintain adequate health insurance coverage. This trend could increase the levels of uncompensated care provided by the Hospital.
- Building project. As discussed in Note 8 to the financial statements, Hospital management initiated a major renovation/construction project in 2008. The project was completed during 2010.

Contacting The Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital Administration Department, at Bob Wilson Memorial Grant County Hospital, 415 N. Main, Ulysses, Kansas 67880.

BOB WILSON MEMORIAL GRANT COUNTY HOSPITAL

BALANCE SHEETS

ASSETS

	December 31,	
	2010	2009
Current assets:		
Cash and cash equivalents (Notes 1 and 3)	\$ 404,745	\$ 3,709,875
Short-term investments (Note 3)	1,001,274	1,780,920
Accounts receivable, net of allowance for doubtful accounts of \$487,779 in 2010 and \$452,156 in 2009 (Notes 1 and 4)	2,421,282	2,187,765
Estimated third-party payer settlements (Note 2)	255,515	79,420
Inventories (Note 1)	293,730	288,411
Other	276,045	269,569
Total current assets	4,652,591	8,315,960
Property and equipment, at cost (Notes 1, 5 and 8):		
Land improvements	345,198	52,859
Buildings	28,523,900	25,903,777
Fixed equipment	1,403,209	369,307
Movable equipment	5,879,114	5,477,204
Construction in progress	248,701	1,424,786
	36,400,122	33,227,933
Less accumulated depreciation	8,232,972	7,938,055
Property and equipment net of accumulated depreciation	28,167,150	25,289,878
Total assets	\$ 32,819,741	\$ 33,605,838

The accompanying notes are an integral
part of the financial statements.

LIABILITIES AND NET ASSETS

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
Current liabilities:		
Accounts payable	\$ 1,735,235	\$ 1,235,853
Salaries and wages payable	15,236	75,169
Compensated absences payable (Notes 1 and 6)	172,500	175,000
Payroll taxes payable	<u>10,380</u>	<u>1,421</u>
Total current liabilities	<u>1,933,351</u>	<u>1,487,443</u>
Non-current liabilities (Notes 1 and 6)	<u>120,072</u>	<u>121,741</u>
Total liabilities	<u>2,053,423</u>	<u>1,609,184</u>
Net assets (Note 1):		
Invested in capital assets net of related debt	28,167,150	25,289,878
Unrestricted	<u>2,599,168</u>	<u>6,706,776</u>
Total net assets	<u>30,766,318</u>	<u>31,996,654</u>
Total liabilities and net assets	<u>\$ 32,819,741</u>	<u>\$ 33,605,838</u>

BOB WILSON MEMORIAL GRANT COUNTY HOSPITAL

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	<u>Year ended December 31,</u>	
	<u>2010</u>	<u>2009</u>
Operating revenues:		
Net patient service revenue (Note 1)	\$ 11,649,671	\$ 11,299,638
Other	<u>20,287</u>	<u>42,785</u>
Total operating revenue	<u>11,669,958</u>	<u>11,342,423</u>
Operating expenses:		
Salaries	7,757,495	7,677,129
Employee benefits	1,198,894	1,157,838
Supplies and other	3,863,978	3,909,275
Depreciation (Note 1)	<u>1,894,653</u>	<u>827,926</u>
Total operating expenses	<u>14,715,020</u>	<u>13,572,168</u>
Operating loss	<u>(3,045,062)</u>	<u>(2,229,745)</u>
Nonoperating revenues:		
Taxes (from Grant County)	1,049,844	1,049,840
Investment income	30,209	135,437
Noncapital grants and contributions	24,372	20,000
Other	<u>77,940</u>	<u>35,811</u>
Total nonoperating revenues	<u>1,182,365</u>	<u>1,241,088</u>
Expenses over revenues before capital grants and contributions	(1,862,697)	(988,657)
Transfers from Grant County for capital assets (Note 8)	<u>632,361</u>	<u>12,723,510</u>
Increase (decrease) in net assets	(1,230,336)	11,734,853
Net assets at beginning of year	<u>31,996,654</u>	<u>20,261,801</u>
Net assets at end of year	<u>\$ 30,766,318</u>	<u>\$ 31,996,654</u>

The accompanying notes are an integral
part of the financial statements.

BOB WILSON MEMORIAL GRANT COUNTY HOSPITAL

STATEMENTS OF CASH FLOWS

	Year ended December 31,	
	2010	2009
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 11,240,059	\$ 11,433,608
Payments to suppliers and contractors	(3,367,432)	(3,567,104)
Payments to employees	(7,821,597)	(7,602,901)
Payments for employee benefits	(1,198,894)	(1,157,838)
Other receipts and payments, net	<u>20,287</u>	<u>42,785</u>
Net cash flows used by operating activities	<u>(1,127,577)</u>	<u>(851,450)</u>
Cash flows from noncapital financing activities:		
Property taxes for operations	1,049,844	1,049,840
Grants and contributions	77,940	20,000
Other	<u>24,372</u>	<u>35,811</u>
Net cash flows provided by noncapital financing activities	<u>1,152,156</u>	<u>1,105,651</u>
Cash flows used by capital and related financing activities –		
Purchases of property and equipment	<u>(4,139,564)</u>	<u>(1,833,085)</u>
Cash flows from investing activities:		
Decreases in investments, net	779,646	3,725,218
Investment income	<u>30,209</u>	<u>135,437</u>
Net cash flows provided by investing activities	<u>809,855</u>	<u>3,860,655</u>
Net increase in cash and cash equivalents	(3,305,130)	2,281,771
Cash and cash equivalents at beginning of year	<u>3,709,875</u>	<u>1,428,104</u>
Cash and cash equivalents at end of year	<u>\$ 404,745</u>	<u>\$ 3,709,875</u>

The accompanying notes are an integral part of the financial statements.

	<u>Year ended December 31,</u>	
	<u>2010</u>	<u>2009</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (3,045,062)	\$ (2,229,745)
Adjustments to reconcile operating loss to net cash flows used in operating activities:		
Depreciation and amortization	1,894,653	827,926
Provision for doubtful accounts	64,023	171,861
Net (increases) decreases in current assets:		
Accounts receivable	(297,540)	173,487
Inventories	(5,319)	(8,732)
Estimated third-party payer settlements	(176,095)	(79,420)
Other	(6,476)	(47,885)
Net increases (decreases) in current liabilities:		
Accounts payable	499,382	409,839
Salaries and wages payable	(59,933)	24,080
Compensated absences payable	(4,169)	50,148
Payroll taxes payable	8,959	(11,051)
Estimated third-party payer settlements	—	(131,958)
Net cash used by operating activities	<u>\$ (1,127,577)</u>	<u>\$ (851,450)</u>

BOB WILSON MEMORIAL GRANT COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and business activity

Bob Wilson Memorial Grant County Hospital (Hospital) is owned by Grant County, Kansas and provides acute inpatient, outpatient, swing bed, home health and rural health clinic services. The Board of County Commissioners appoints the members of the Board of Trustees. For this reason, the Hospital is considered to be a component unit of Grant County, Kansas.

Basis of accounting and presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place. Operating revenues and expenses include exchange transactions. Property taxes, investment income, interest on capital assets-related debt are included in nonoperating revenues and expenses.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for doubtful accounts

Accounts receivable is presented net of an allowance for doubtful accounts. The allowance is estimated based on multiple factors including historical experience with bad debts, the aging of receivables, payor mix trends, and local economic conditions. If future actual default rates on accounts receivable in general differ from those currently anticipated, the Hospital may have to adjust its allowance for doubtful accounts, which would affect earnings in the period the adjustments are made.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out method.

Capital assets

The Hospital's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land are depreciated using the straight-line method over their estimated useful lives as follows:

Land improvements	10 - 12 years
Buildings	5 - 40 years
Fixed equipment.....	5 - 25 years
Equipment	3 - 20 years

Maintenance and repairs are charged to expense as incurred and betterments are capitalized. Gains and losses from sales or disposals are included in income in the period of disposition.

Net patient service revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per episode, reimbursed costs, per diem payments, and discounted charges. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such estimated amounts are revised in future periods as adjustments become known.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Grants and contributions

From time to time, the Hospital receives grants and contributions from government agencies, private organizations, and individuals. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses. When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

Compensated absences

The Hospital's employees earn vacation days at varying rates depending on years of service. Employees may accumulate vacation days up to a specified maximum. Compensated absence liabilities are computed using the regular pay rates in effect at the balance sheet date.

Operating revenues and expenses

The Hospital's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Charity care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net assets

Net assets of the Hospital are classified into two components as follows:

Net assets invested in capital assets net of related debt – consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.

Unrestricted net assets – are remaining net assets that do not meet the definition of *invested in capital assets net of related debt* or *restricted*.

Cash and cash equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less.

Risk management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hospital carries commercial insurance for all risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

The Hospital pays fixed premiums for annual medical malpractice coverage under an occurrence-basis policy. The Hospital accrues the expenses of its share of malpractice claim costs, if any, of reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate cost of any incident. Based on the Hospital's own claims experience, no accrual, for medical malpractice costs has been made in the accompanying financial statements.

Income taxes

As a governmental entity, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and similar provisions of state law.

Subsequent events

Subsequent events have been evaluated through July 8, 2011, which is the date the financial statements were available to be issued.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reclassifications

Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 presentation. The reclassifications had no effect on the change in net assets.

2. ESTIMATED THIRD-PARTY PAYER SETTLEMENTS

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payers is as follows:

Medicare: Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge, which includes capital costs. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Outpatient services are generally paid based on a prospectively determined amount per procedure. Certain outpatient services are paid on a cost reimbursement basis using a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medical fiscal intermediary. The Hospital's classification of patients under the Medicare program and appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital. The Hospital's Medicare cost reports have been reviewed by the Medicare fiscal intermediary through December 31, 2008.

Medicaid: Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates for each day of hospitalization with no retrospective adjustment.

Other carriers: The Hospital has also entered into payment agreements with certain commercial insurance carriers and other third-party payer programs. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

3. DEPOSITS AND INVESTMENTS

Applicable state statutes authorize the Hospital to invest in (1) temporary notes or no-fund warrants issued by the Hospital (2) time deposit, open accounts or certificates of deposit, with maturities of not more than two years, in commercial banks; (3) time certificates of deposit, with maturities of not more than two years, with state or federally chartered savings and loan associations or federally chartered savings banks, (4) repurchase agreements with commercial banks, state or federally chartered savings and loan associations or federally chartered savings banks; (5) United States treasury bills or notes with maturities as the governing body shall determine, but not exceeding two years; (6) the municipal investment pool maintained by the State Treasurer's office, and (7) trust departments of commercial banks.

The following is a summary of deposits and investments:

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
Cash and cash equivalents:		
Cash on hand	\$ 594	\$ 544
Interest bearing checking accounts	404,151	1,946,422
Certificates of deposit	<u>—</u>	<u>1,762,909</u>
	404,745	3,709,875
Short-term investments:		
Certificates of deposit	<u>1,001,274</u>	<u>1,780,920</u>
Totals	<u>\$ 1,406,019</u>	<u>\$ 5,490,795</u>

Custodial credit risk for deposits is the risk that in the event of bank failure, the Hospital's deposits may not be returned or the Hospital will not be able to recover collateral securities in the possession of an outside party. The Hospital's policy follows applicable State statutes and requires deposits to be 100% secured by collateral (pledged securities) valued at market, less the amount of the Federal Deposit Insurance Corporation (FDIC) insurance. State statutes define the allowable pledged securities.

The following is a summary of the depository balances compared with deposit collateralization:

3. DEPOSITS AND INVESTMENTS (continued)

	December 31,	
	2010	2009
Depository balances	\$ 1,569,776	\$ 5,864,452
Less: FDIC insurance coverage	<u>(250,000)</u>	<u>(250,000)</u>
	1,319,776	5,614,452
Less: Pledged securities coverage	<u>(1319,776)</u>	<u>(5,614,452)</u>
Amount unsecured	\$ <u>—</u>	\$ <u>—</u>
Fair value of pledged securities	\$ <u>3,063,763</u>	\$ <u>6,514,329</u>

4. CONCENTRATIONS OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	December 31,	
	2010	2009
Medicare and Medicaid	42%	41 %
Commercial insurance	30%	38 %
Other	<u>28%</u>	<u>21 %</u>
	<u>100 %</u>	<u>100 %</u>

5. CAPITAL ASSETS

Capital asset additions, disposals, and balances for the years ended December 31, 2010 and 2009 were as follows:

	Balance At December 31, 2009	Additions	Disposals	Balance At December 31, 2010
Land improvements	\$ 52,859	\$ 292,339	\$ —	\$ 345,198
Buildings	25,903,777	3,886,239	1,266,116	28,523,900
Fixed equipment	369,307	1,033,902	—	1,403,209
Movable equipment	5,477,204	735,530	333,620	5,879,114
Construction in progress	<u>1,424,786</u>	<u>(1,176,085)</u>	<u>—</u>	<u>248,701</u>
Total cost	<u>33,227,933</u>	<u>4,771,925</u>	<u>1,599,736</u>	<u>36,400,122</u>

5. CAPITAL ASSETS (continued)

	Balance At December 31, 2009	Additions	Disposals	Balance At December 31, 2010
Less accumulated depreciation for:				
Land improvements	\$ 51,695	\$ 8,433	\$ —	\$ 60,128
Buildings	4,451,709	1,250,885	1,266,116	4,436,478
Fixed equipment	376,740	72,478	—	449,218
Movable equipment	3,057,911	562,857	333,620	3,287,148
Total accumulated depreciation	7,938,055	1,894,653	1,599,736	8,232,972
Total capital assets, net	\$ 25,289,878	\$ 2,877,272	\$ —	\$ 28,167,150

	Balance At December 31, 2008	Additions	Disposals	Balance At December 31, 2009
Land improvements	\$ 52,859	\$ —	\$ —	\$ 52,859
Buildings	6,011,159	19,892,618	—	25,903,777
Fixed equipment	369,307	—	—	369,307
Movable equipment	4,101,335	1,375,869	—	5,477,204
Construction in progress	8,136,678	(6,711,892)	—	1,424,786
Total cost	18,671,338	14,556,595	—	33,227,933
Less accumulated depreciation for:				
Land improvements	51,473	222	—	51,695
Buildings	4,076,729	374,980	—	4,451,709
Fixed equipment	628,828	47,912	—	376,740
Movable equipment	2,653,099	404,812	—	3,057,911
Total accumulated depreciation	7,110,129	827,926	—	7,938,055
Total capital assets, net	\$ 11,561,209	\$ 13,728,669	\$ —	\$ 25,289,878

6. NON-CURRENT LIABILITIES

Non-current liabilities consisted of the following:

	Balance At December 31, 2009	Additions	Reductions	Balance At December 31, 2010	Amounts Due Within One Year
Compensated absences payable	<u>\$ 296,741</u>	<u>\$ 623,156</u>	<u>\$ 627,325</u>	<u>\$ 292,572</u>	<u>\$ 172,500</u>

	Balance At December 31, 2008	Additions	Reductions	Balance At December 31, 2009	Amounts Due Within One Year
Compensated absences payable	<u>\$ 246,593</u>	<u>\$ 519,049</u>	<u>\$ 568,901</u>	<u>\$ 296,741</u>	<u>\$ 175,000</u>

7. DEFINED CONTRIBUTION PENSION PLAN

The Hospital maintains a defined contribution pension plan covering substantially all employees. A third-party has been contracted to administer the plan.

Covered employees are required by the Plan to contribute 6 percent of their covered compensation. The employer is required to match full-time employee contributions and 1.5 percent of part-time employees' effective compensation. This plan is provided in lieu of the social security portion of FICA. Benefits begin to vest after one year of service, with full vesting after four years of service. Pension cost, which is funded as accrued, was \$380,584 and \$336,488 for the years ended December 31, 2010 and 2009.

8. CONSTRUCTION PROJECT

In November 2006, the voters of Grant County, Kansas approved the issuance of general obligation bonds to fund, in part, a major construction and renovation project for the Hospital facility. Accordingly, on October 1, 2007 and February 1, 2008, \$9,750,000 of Series 2007A General Obligation bonds and \$9,750,000 of Series 2008A General Obligation bonds, respectively, were issued by the County to provide financing for the project.

8. CONSTRUCTION PROJECT (continued)

The project, completed in 2010, included construction of an addition to the facility as well as remodeling, renovating, furnishing and equipping the existing facility. The total approximate cost of the project was \$26 million and was financed by the general obligation bonds and other available Hospital and County funds. Costs incurred directly by the County are contributed to and capitalized by the Hospital.

9. OTHER POST EMPLOYMENT BENEFITS

As provided by K.S.A. 12-5040, the Hospital is required to allow qualifying retirees to participate in the group health insurance plan. While each retiree is required to pay the full amount of the applicable premium, conceptually, the Hospital is subsidizing the retirees because each participant is charged a level premium regardless of age. However, the cost of the subsidy, if any, has not been quantified in these financial statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the Hospital makes health care benefits available to eligible former employees and their eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid entirely by the insured and there is no cost to the Hospital under this plan.

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

Generally Accepted Accounting Principles (GAAP) establishes a single authoritative definition of fair value, sets a framework for measuring fair value and requires additional disclosures about fair value measurements. Financial instruments that are measured and reported at fair value are classified and disclosed in one of the following categories based on inputs:

- Level 1 – Quoted market prices are available in active markets for identical instruments as of the reporting date.
- Level 2 – Pricing inputs are observable for the instruments, either directly or indirectly, as of the reporting date, but are other than quoted prices in active markets as in Level 1.
- Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument.

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments:

Cash and cash equivalents – The carrying amounts reported in the balance sheet for cash and cash equivalents approximates its fair value.

10. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Investments – Consisting of bank certificates of deposit, of which the carrying amounts reported in the balance sheet approximates the fair value.

Accounts receivable – The carrying amounts reported in the balance sheet for accounts receivable approximates fair value because of the short-term nature of those instruments.

Estimated third-party payor settlements – The carrying amounts reported in the balance sheet for estimated third-party payor settlements approximates fair value because of the short-term nature of those instruments.

Accounts and other payables – The carrying amounts reported in the balance sheet for accounts and other payables approximates its fair value.

The carrying amounts and fair value of the Hospital's financial instruments at December 31, 2010 and 2009 are as follows:

	<u>December 31, 2010</u>		<u>December 31, 2009</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 404,745	\$ 404,745	\$ 3,709,875	\$ 3,709,875
Investments	1,001,274	1,001,274	1,780,920	1,780,920
Accounts and other receivables	2,421,282	2,421,282	2,187,765	2,187,765
Estimated third-party payor settlements	74,141	74,141	79,420	79,420
Accounts and other payables	1,760,851	1,760,851	1,312,443	1,312,443

ADDITIONAL INFORMATION

BOB WILSON MEMORIAL GRANT COUNTY HOSPITAL

SCHEDULE OF PATIENT SERVICE REVENUE

	Year ended December 31,					
	2010			2009		
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>
Adults and pediatrics	\$1,940,182	\$ 387,952	\$ 2,328,134	\$ 1,797,871	\$ 375,464	\$ 2,173,335
Nursery	57,000	—	57,000	64,752	—	64,752
Operating room	754,121	3,774,753	4,528,874	994,379	4,247,177	5,241,556
Labor and delivery	451,055	63,264	514,319	535,904	53,019	588,923
Anesthesiology	259,370	879,080	1,138,450	375,626	1,131,544	1,507,170
Imaging	446,735	2,839,274	3,286,009	504,274	2,616,622	3,120,896
Laboratory	786,180	1,992,223	2,778,403	862,324	2,021,254	2,883,578
Respiratory therapy	529,597	102,326	631,923	455,300	65,816	521,116
Physical therapy	88,204	2,433	90,637	160,711	42,599	203,310
Electrocardiology	44,902	149,327	194,229	54,534	112,929	167,463
Central services and supply	688,284	621,822	1,310,106	659,280	628,115	1,287,395
Pharmacy	778,105	691,082	1,469,187	825,012	887,069	1,712,081
Emergency services	229,044	2,583,242	2,812,286	282,768	2,279,214	2,561,982
Clinic	—	1,362,278	1,362,278	—	1,655,951	1,655,951
Home health	—	128,173	128,173	—	114,685	114,685
	<u>\$7,052,779</u>	<u>\$15,577,229</u>	22,630,008	<u>\$ 7,572,735</u>	<u>\$16,231,458</u>	23,804,193
Contractual adjustments			(10,554,666)			(12,013,496)
Charity care			(361,648)			(319,198)
Bad debts			(64,023)			(171,861)
Net patient service revenue			<u>\$ 11,649,671</u>			<u>\$11,299,638</u>

BOB WILSON MEMORIAL GRANT COUNTY HOSPITAL

SCHEDULE OF OPERATING EXPENSES BY FUNCTIONAL DIVISION

Department	Year ended December 31, 2010				Percent of total operating expenses
	Salaries	Supplies and other	Depreciation	Total	
Routine service:					
Adult and pediatrics	\$ 1,132,724	\$ 48,783	\$ —	\$ 1,181,507	8.03 %
Nursery	—	1,691	—	1,691	0.01
	<u>1,132,724</u>	<u>50,474</u>	<u>—</u>	<u>1,183,198</u>	<u>8.04</u>
Ancillary services:					
Operating room	1,053,841	77,430	—	1,131,271	7.69
Labor and delivery	312,570	40,084	—	352,654	2.40
Anesthesiology	—	425,077	—	425,077	2.89
Radiology	242,478	375,289	—	617,767	4.20
Laboratory	289,086	305,823	—	594,909	4.04
Respiratory therapy	210,330	39,411	—	249,741	1.70
Physical therapy	4,086	35,970	—	40,056	0.27
Electrocardiology	23,377	15,351	—	38,728	0.26
Central services and supply	112,798	344,138	—	456,936	3.11
Pharmacy	67,815	281,629	—	349,444	2.37
Emergency services	645,098	320,504	—	965,602	6.56
Clinic	1,839,490	385,931	—	2,225,421	15.12
Home health	136,175	78,456	—	214,631	1.46
	<u>4,937,144</u>	<u>2,725,093</u>	<u>—</u>	<u>7,662,237</u>	<u>52.07</u>
General services:					
Nursing administration	193,225	211	—	193,436	1.31
Operation of plant	103,939	368,285	—	472,224	3.21
Laundry	36,398	3,194	—	39,592	0.27
Housekeeping	145,243	11,922	—	157,165	1.07
Dietary	125,853	73,333	—	199,186	1.35
Medical records	189,108	45,574	—	234,682	1.59
Administration and general	893,861	585,892	—	1,479,753	10.06
Employee benefits	—	1,198,894	—	1,198,894	8.15
Depreciation	—	—	1,894,653	1,894,653	12.88
	<u>1,687,627</u>	<u>2,287,305</u>	<u>1,894,653</u>	<u>5,869,585</u>	<u>39.89</u>
	<u>\$ 7,757,495</u>	<u>\$ 5,062,872</u>	<u>\$ 1,894,653</u>	<u>\$ 14,715,020</u>	<u>100.00 %</u>

Year ended December 31, 2009					
Department	Salaries	Supplies and other	Depreciation	Total	Percent of total operating expenses
Routine service:					
Adult and pediatrics	\$ 961,834	\$ 67,864	\$ —	\$ 1,029,698	7.58 %
Nursery	—	2,817	—	2,817	0.02
	<u>961,834</u>	<u>70,681</u>	<u>—</u>	<u>1,032,515</u>	<u>7.60</u>
Ancillary services:					
Operating room	1,236,314	86,582	—	1,322,896	9.75
Labor and delivery	316,074	24,585	—	340,659	2.51
Anesthesiology	—	425,045	—	425,045	3.13
Radiology	242,940	356,954	—	599,894	4.42
Laboratory	252,741	256,891	—	509,632	3.75
Respiratory therapy	239,238	54,583	—	293,821	2.16
Physical therapy	77,126	51,884	—	129,010	0.95
Electrocardiology	18,617	13,791	—	32,408	0.24
Central services and supply	110,010	396,307	—	506,317	3.73
Pharmacy	77,429	395,618	—	473,047	3.49
Emergency services	713,256	324,512	—	1,037,768	7.65
Clinic	1,741,091	332,794	—	2,073,885	15.28
Home health	158,025	65,709	—	223,734	1.65
	<u>5,182,861</u>	<u>2,785,255</u>	<u>—</u>	<u>7,968,116</u>	<u>58.71</u>
General services:					
Nursing administration	123,625	752	—	124,377	0.92
Operation of plant	108,894	303,242	—	412,136	3.04
Laundry	32,944	6,812	—	39,756	0.29
Housekeeping	129,684	12,964	—	142,648	1.05
Dietary	119,915	80,549	—	200,464	1.48
Medical records	188,174	32,930	—	221,104	1.63
Administration and general	829,198	616,090	—	1,445,288	10.65
Employee benefits	—	1,157,838	—	1,157,838	8.53
Depreciation	—	—	827,926	827,926	6.10
	<u>1,532,434</u>	<u>2,211,177</u>	<u>827,926</u>	<u>4,571,537</u>	<u>33.69</u>
	<u>\$ 7,677,129</u>	<u>\$ 5,067,113</u>	<u>\$ 827,926</u>	<u>\$ 13,572,168</u>	<u>100.00 %</u>